

**STATE OF MINNESOTA
DEPARTMENT OF COMMERCE**

**Bulletin 96-5
Issued this 1st day of November, 1996**

To: ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA

This bulletin supersedes bulletin 95-6 and reminds all crop hail insurers of the requirements of Minnesota Statute 70A.04, subdivision 1; states, "rates shall not be excessive, inadequate or unfairly discriminatory, nor shall an insurer use rates to engage in unfair price competition." In making your crop hail rate filing for the 1997 and subsequent seasons, follow these guidelines:

1. The filings must reflect the latest NCIS final average loss costs with catastrophe (FALC with catastrophe). All data must be documented and filed to justify your rates. The filings must be received in our office prior to March 1, 1997.
2. Your filing must use the NCIS 1948-1994 final average loss costs with catastrophe (FALC with catastrophe), of loss costs developed by using meaningful statistics from a large data base for a minimum of 20 years. Companies using the NCIS FALC will be allowed to adjust the NCIS FALC if their previous experience for a minimum of ten years compared to NCIS FALC for the same time period justifies it. If an insurer can use their own experience, they cannot deviate, either up or down, more than 15% from the NCIS FALC. Companies with a minimum of 10 years experience will be allowed to determine and use their own crop and policy form factors, but when the NCIS FALC is being modified or policy form or crop factors other than those filed or developed by NCIS are used, a consistent methodology must be approved and signed by an accredited property/casualty actuary.
3. Include a 3 year expense statement broken down by Production Expenses; Taxes; Licenses and Fees; General Expenses; Loss Adjusting Expenses; Contingencies; Other Expenses; Anticipated Underwriting Profit and Discounts (except cash).
4. The formula for calculating the base rate is: Base Rate equals NCIS FALC/(1.00- (Expense Load plus Anticipated Profit). If your own FALC experience can be used as explained in item 2, replace NCIS FALC in the formula with that expense. Companies leave the option of separating fixed from variable expenses, but this must be supported by an accompanying actuarial analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation.

5. DISCOUNTS:

- A. Cash discounts are limited to a maximum of 3% unless a higher discount can be justified. The cash must be paid by July 1st of the crop season to qualify for the discount. If the policy is written after July 1st, the cash must accompany the application to the processing office to qualify for the discount.
 - B. Claim free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.
 - C. Unless actuarially justified, a discount will not be allowed on crop hail premiums if a Multi-Peril policy (MPCI) is involved.
 - D. Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings.
 - E. Any other discounts must be actuarially justified and submitted over the signature of a property/casualty actuary.
 - F. All discounts, except cash discounts, not offset by specific expense saving must be included in the expense statement mentioned in paragraph 3.
6. Indicate in the filing, what percentage your rates increased from 1995 to 1996.
7. Do not file MPCI rates or forms, either as a formal filing or a courtesy filing. We have decided not to accept these filings unless the 8th Circuit Court makes a different ruling than that made by the 10th Circuit Court.

Questions regarding this bulletin should be referred to Ms. Tammy Lohmamm, Senior Commerce Analyst, (612)296-2327 or Sherri Mortensen Brown, Commerce Analyst, (612)296-4024.

David B. Gruenes, Commissioner